

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 NSC-07 NSCE-00 NEA-06 SSO-00

INRE-00 CIAE-00 INR-10 NSAE-00 RSC-01 PM-03 DODE-00

FEA-01 SCI-03 EUR-10 L-02 SAM-01 PRS-01 SP-01 SAB-01

DRC-01 /066 W

----- 028704

O R 241741Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 0677

INFO AMEMBASSY KUWAIT

AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

AMCONSUL DHAHRAN

USMISSION OECD PARIS

AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 06544

LIMDIS

E'O' 11652: XGDS-1

TAGS: ENRG

SUBJECT: KUWAIT BUY BACK NEGOTIATIONS

REF: (A) STATE 109112, (B) KUWAIT 2050

BEGIN SUMMARY: ATIQUI SAW SECSTATE FOR ENERGY
VARLEY MAY 24. BRITISH BELIEVE GULF/BP WILL BE
UNDER STRONG PRESSURE TO SETTLE WITH KUWAIT EARLY IN
JUNE UNLESS SOME MOVEMENT TOWARDS SAUDI ARAMCO.
SETTLEMENT IS MADE BEFORE THEN. END SUMMARY

1. KUWAIT MINPET ATIQUI, WHO CAME TO UK TO LAUNCH A
TANKER MAY 23, HAD HALF-HOUR CONVERSATION WITH
SECRETARY OF STATE FOR ENERGY ERIC VARLEY MORNING OF
MAY 24 BEFORE HE LEFT UK'S MEETING WITH VARLEY WAS
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PRECEDED BY BRIEF, SEPARATE MEETING WITH REPRESENTA-

TIVES OF GULF AND BP (RALSTON AND SUTCLIFFE)'

2. WILLIAMS (DEPUTY SECRETARY, DEPARTMENT OF ENERGY) SUMMARIZED MEETING WITH VARLEY AS FOLLOWS: IT WAS BRIEF AND BOTH SIDES WERE FRIENDLY AND REASONABLE THROUGHOUT. VARLEY EMPHASIZED THAT HE WAS NOT SEEKING TO INTERVENE IN THE NEGOTIATIONS BETWEEN THE KUWAIT GOVERNMENT AND THE OIL COMPANIES, BUT HE EMPHASIZED HMG'S STRONG INTEREST IN SEEING OIL PRICES COME DOWN. (WILLIAMS COMMENTED THAT THIS APPROACH MET A BLANK WALL') ATIQI HAD REPLIED THAT HE WAS UNDER CONSIDERABLE PRESSURE FROM HIS PARLIAMENT NOT TO SETTLE FOR TOO LOW A PRICE, AND CITED THE CURRENT INFLATION IN THE PRICE OF INDUSTRIAL GOODS AND WORSENING KUWAITI TERMS OF TRADE AS A REASON FOR POPULAR PRESSURE TO KEEP OIL PRICES UP. ATIQI ALSO SAID THAT HE HAD MANY OFFERS FOR KUWAITI CRUDE AND THAT "ONE CONCERN," WHICH HE DECLINED TO IDENTIFY, WAS OFFERING A PRICE OF TEN CENTS A BARREL MORE THAN GULF AND BP (WILLIAMS COMMENTED THAT HMG HAS NO IDEA WHETHER THIS IS TRUE BUT THAT ATIQI HAD BEEN MOST INSISTENT ON THIS POINT') ATIQI APPARENTLY DESCRIBED THE TERMS OF KUWAIT'S LATEST "LAST OFFER" ALONG THE LINES SUMMARIZED IN REF (B)'

3. WHEN ASKED ABOUT POSSIBLE CONSUMER-PRODUCER "DIALOGUE," ATIQI SAID HE THOUGHT ANY SUCH DISCUSSION SHOULD BE BROADER THAN PRICES AND SHOULD DEAL WITH WHOLE RANGE OF TECHNICAL ISSUES. (WILLIAMS COMMENTED THAT ATIQI OBVIOUSLY SEEKING TO FOCUS ATTENTION ON MATTERS OTHER THAN PRICES IN ANY SUCH DIALOGUE')

4. WILLIAMS ALSO SAID THAT THE BRITISH HAD BEEN PREPARED FOR A POSSIBLE OFFER BY ATIQI TO DEAL DIRECTLY BETWEEN GOVERNMENTS, IN WHICH CASE THE BRITISH WOULD HAVE REPLIED THAT THEY PREFERRED THAT "OIL REMAIN IN

ITS PRESENT CHANNEL" THAT IS THAT COMPANIES SHOULD CONTINUE TO BE THE INTERMEDIARIES BETWEEN PRODUCERS AND CONSUMERS. THE BRITISH WERE PREPARED FOR A CONFIDENTIAL

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QUESTION ALONG THESE LINES BECAUSE OF A CHANCE REMARK MADE BY AN UNIDENTIFIED KUWAITI OFFICIAL TO THE BRITISH EMBASSY IN KUWAIT TO THE EFFECT THAT KUWAIT CONSIDERING GOVERNMENT-TO-GOVERNMENT DEALS. ALTHOUGH ATIQI DID NOT RAISE THIS MATTER BRITISH WOULD NOT BE SURPRISED IF HE DOES SO IN FUTURE'

5. WILLIAMS SAID THAT THE NEXT STAGE OF THE NEGOTIA-

TIONS WILL TAKE PLACE DURING THE FIRST WEEKEND IN JUNE IN CAIRO. WILLIAMS BELIEVES THAT THE COMPANIES WILL SEEK TO SETTLE THEN, AND HE EXPRESSED SOME DOUBT ABOUT THE COMPANIES' WILLINGNESS TO HOLD OUT INDEFINITELY FOR A PRICE OF 93 PER CENT.

6. WE CONVEYED SUBSTANCE REF A TO WILLIAMS, HE COMMENTED THAT US/UK GOVERNMENTS OBVIOUSLY PROCEEDING ON PARALLEL LINES. HE ALSO TOOK NOTE OF POINT MADE

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 06544

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PARA4 AND ASKED WHEN WE THOUGHT SAUDIS AND ARAMCO MIGHT CONCLUDE AGREEMENT.

7. AFTER THE CONVERSATIONS SUMMARZIED ABOVE, WILLIAMS TELEPHONED TO SAY THAT HE PERSONALLY FELT IT MOST

IMPORTANT THAT SAUDI ARABIA SHOW SOME MOVEMENT TOWARDS CONCLUDING AN AGREEMENT WITH ARAMCO. HE THOUGHT IT WOULD BE MUCH EASIER TO PERSUADE BP AND GULF TO HOLD FIRM IF IT SEEMED LIKELY THAT AN ARRANGEMENT BETWEEN SAUDI ARABIA AND ARMACO WERE LIKELY. HE SPECIFICALLY REQUESTED THAT WE SOLICIT THE DEPARTMENT'S VIEWS ON THIS POINT. WE WOULD APPRECIATE ANY COMMENTS THAT WE MAY PASS TO WILLIAMS.

8. RE EARLIER MEETING OF ATIQUI AND GULF/BP, RALSTON (GULF) TOLD BENNSKY (DIV FSE) THAT WHILE ATIQUI UNDERSTANDING DURING THIS MORNING'S CONVERSATION OF COM-
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PANIES' PROBLEM WITH KUWAITI BUY-BACK PRICE PROPOSAL, HE (ATIQUI) QUITE CLEAR THAT DOMINANT FACTOR IS REQUIREMENT THAT WHATEVER FORMULA AGREED TO MUST STAND UP UNDER CLOSE AND CRITICAL DOMESTIC SCRUTINY. RALSTON AND WYLLIE, PRESIDENT GULF EUROPE, SAID GULF STILL TRYING TO SETTLE AT BELOW 93 PER CENT OF POSTED PRICE BUT EXPRESSED CONCERN AT BEING ABLE EVEN KEEP BUY-BACK IN LINE WITH QATAR SETTLEMENT. THEY POINTED OUT GULF FELT IT HAD TO SETTLE ACCOUNTS SOON FOR BUY-BACK OIL LIFTED IN FIRST HALF YEAR WHICH ALMOST OVER. AS FOR SECOND HALF GULF PLANNED ASK FOR WRITTEN PROPOSAL FROM KUWAITIS RE QUANTITIES AND PRICE BUY-BACK OIL THEY WILLING SELL GULF, WITH GULF PREPARED TO BARGAIN HARD AGAINST BACKGROUND MUCH LOWER PROFIT MARGINS AND SOFTER MARKET.

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